d for your information is an excellent analysis

Housing Program prepared by John Mahoney for

Philip Zeigler

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[redacted]

P. Zeigler
Bob Lincott

INTER-OFFICE COMMUNICATION

TO Those Concerned

FROM Ed Teitcher

DATE December 10, 1968

SUBJECT 236 HOUSING PROGRAM

Claire - get Xerox of these for Al, Bob, Bob, Maura, Mike, Dale, Mike, Mary Jo, Dick, Warren

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Enclosed for your information is an excellent analysis of the new 236 Housing Program prepared by John Mahoney for CHPA.

ET/pmd

Philip Zeigler

cc: Philip Zeigler (?)
Director of Planning

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THE SECTION 236 PROGRAM - DOES IT WORK?

For a number of reasons, the most important single feature of the much talked-about 1968 Housing Act is the Section 236 program (Section 201 of the Housing and Urban Development Act of 1968). It is important, not only because of the objectives and subsidy provisions of the program itself, but because it would appear that it will replace the Section 221 (d) (3) Below Market Interest Rate (BMIR) program; the single most useful tool we have had for producing low/moderate income multi-family housing.

Since passage of the 1968 Act, until now, most professionals in the field have believed either (1) that the 221 (d) (3) BMIR program would not, in the final analysis be phased out, because it served a different segment of the housing market than Section 236, or (2) that 221 (d) (3) would not be phased out until the 236 program was fully operative and successfully working as a financing tool. However, FHA officials in Washington are now convinced that 221 (d) (3) will be phased out and that this will happen rather quickly. Some believe it may, in effect, have already happened.

Several weeks ago the Bureau of the Budget recalled all unallocated 221 (d) (3) BMIR funds ($100 million). This appears to indicate that any project which does not now have its 221 (d) (3) allocation will not receive one unless and until the Nixon administration decides to release these funds or, in the alternative, follows through with immediate phasing out of 221 (d) (3).

At any rate, the 221 (d) (3) BMIR program is probably on its way out; the 236 has just been born and in a very real sense, it is the best we have at the moment.

The question, I think, rather rhetorically being asked these days is "Does the 236 program work?" Under the circumstances, the question which more sensibly should be asked is "Can it be made to work?" This answer is, I think, a qualified -- "yes"!

The program was hammered out in the Congress for over a year where in the later stages a carefully instructed minority of conservative thinking congressmen who, along with certain of their more influential constituents insisted that "we can't afford to

subsidize the housing costs of over half the people in the country", left their imprint on the final version. For a period before the 1968 Act was passed, widespread congressional feeling had been building up that programs such as the 221 (d) (3) BMIR program represented a kind of "back door" spending by the Executive Branch which left Congress divested, as it were, of its most precious possession, namely, purse-string control.

Since spending for the 221 (d) (3) program did not show up on the Federal budget, and since spending for the 236 program would not only show up on the budget, but would be reported in detail directly to the appropriate Congressional Committees by the Secretary of HUD, a great many Congressmen were convinced that it would be, at least in this important respect, a step in the right direction.

How the Program Works:

The objective of Section 236 is to provide an assistance program for multi-family housing for "lower income families".

These multi-family developments may be developed and owned by non-profit or limited dividend entities or may be organized on a cooperative or condominium basis.

The form of this assistance is in monthly payments to the mortgagee (i.e. the lending institution) to reduce the housing cost to the occupants.

In order to bring the monthly charges down to a level which lower income families can afford, these monthly interest reduction payments effectively reduce the payments on the project mortgage from an amount required on a market rate mortgage (currently 6 3/4%) to an amount that would be required if the mortgage were at the rate of 1%.

Basic rental charges for each unit type are determined on the basis of operating the development with a mortgage at the 1% rate. The tenant or cooperative member pays the basic rental or 25% of his income, whichever is greater. However, this payment would not exceed the fair market rental which would be charged if the project were unassisted.

The income of each family must be within specified limits and must be recertified every two years and monthly charges are adjusted accordingly.

Rental charges collected by the owner in excess of the basic rentals are returned to HUD for deposit in a revolving fund for other interest reduction payments.

Who is Eligible for Assistance?

Initial admission to a development with a 236 assistance is limited to families whose incomes are not in excess of 135% of local public housing admission limits.

For Boston, for example, these income limits would be as shown below as compared to current 221 (d) (3) BMIR limits:

Family Size	Section 236	Section 221 (d) (3)
1	$5,670	$ 6,100
2	6,210	7,400
3	7,020	8,700
4	7,695	8,700
5	7,965	10,000
6	8,235	10,000
7 or more	8,505	11,300

The difference between limits under Section 236 and Section 221 (d) (3) is, however, not quite as great as it would appear.

Under Section 221 (d) (3) "family income" means all family income without deductions or exclusions. Under Section 236 the income figures shown are in effect "adjusted annual income" after deduction of $300 for each minor child and after exclusion of any earnings of minor children.

Although most (80%) of the funds authorized for Section 236 may be used, in the initial rent up of a development, to assist families whose income does not exceed 135% of local admission limits for public housing, a portion (20%) of authorized Section 236 funds may be used for families whose income does not exceed 90% of the 221 (d) (3) limits applicable in that area.

For any city or town in the Boston Standard Metropolitan Statistical Area (SMSA) which include not only the City of Boston but many out-lying suburbs, the income limits at 90% of current 221 (d) (3) BMIR limits would be as set forth below:

Family Size	Income Limit
1	$ 5,490
2	6,660
3-4	7,830
5-6	9,000
7 or more	10,170

Again, these figures are "adjusted annual income"; a deduction of $300 for each minor child is allowed and the income of minor children is not included in determining family income.

It is important to note that after the initial rent up period, the income limits for admission then become 90% of the 221 (d) (3) for the area.

In effect, this provides lower income families with a preference in initial rent up.

It also means that rather than being limited to families in the income range between the minimum practical income level and the 236 initial admission limits (based upon 135% of public housing limits) which in many cases can be an extremely narrow range, a section 236 project will in the long run be a continuing housing resource for families within a much wider income range than could be achieved under Section 221 (d) (3), especially for larger families.

For purposes of examining how this would work, consider the following sample case. The 236 Basic rental charges shown are within FHA limits and would presumably support a low-rise, moderately high cost project in the City of Boston, based upon current construction and operating cost experience.

Unit Type	236 Basic Rentals				Annual Housing Cost				Minimum Practical Income*
1 Bedroom	$115	X	12	=	$1,380	X	4	=	$5,520
2 Bedroom	133	X	12	=	1,590	X	4	=	6,384
3 Bedroom	147	X	12	=	1,764	X	4	=	7,056
4 Bedroom	158	X	12	=	1,896	X	4	=	7,584

*income level at which 25% thereof would be sufficient to pay basic rental.

Income Range Per Unit Size
During Initial Rent Up

Unit Size	Family Size	Minimum Practical Income	Section 236 Income Limit (135% PH)
1 Bedroom	1-2 persons	$5,520	$5,670 - $6,210
2 Bedroom	3-4 persons	6,384	7,020 - 7,695
3 Bedroom	5-6 persons	7,056	7,965 - 8,235
4 Bedroom	7 or more persons	7,584	$8,505

Income Range Per Unit
After Initial Rent Up

Unit Size	Family Size	Minimum Practical Income	Section 236 Income Limit(90% 221(d)(3))
1 Bedroom	1-2 persons	$5,520	$5,490 - $6,660
2 Bedroom	3-4 persons	6,384	$7,830
3 Bedroom	5-6 persons	7,056	9,000
4 Bedroom	7 or more persons	7,584	10,170

The net result of expanding this income range is a substantial improvement over what has been recently achieveable under Section 221 (d) (3), at least in terms of the segment of the housing market which can be served and which provided for greater opportunity for economic integration.

Caveat: Although this is a wider income range than under Section 221 (d)(3), the actual housing cost or rental charges which must be paid by families at the upper levels of this range will most likely be higher than under 221 (d)(3); this is simply because these families under Section 236 must pay 25% of their adjusted annual income.

Using the preceding sample case, the actual housing cost range using the income range applicable after initial rent up would be as follows:

Unit Size	Monthly Charge to Minimum Income Families *	Monthly Charge to Families at Maximum Income**
1 Bedroom	$ 115	$115 - $139
2 Bedroom	133	$163
3 Bedroom	147	188
4 Bedroom	158	212

*as used here, a "minimum income family" would be one whose income is at such a level that 25% of their income apportioned on a monthly basis would equal the basic rental for that unit type.

**as used here, a maximum income family would be one whose income is at the maximum for that family size using 90% of Section 221 (d)(3) income limits.

NOTE: other families whose incomes are higher than the 90% of 221 (d)(3) limits can also live in a 236 project and would pay the rental which would be charged if the project were financed at the market interest rate (i.e. without the 236 subsidy).

What About Very Low Income Families?

The Section 236 program is not intended, and cannot be used, as a substitute for public housing. Those families whose incomes are so low that 25% of their income is still not enough to pay even the basic rental charge cannot be accomodated under Section 236, without additional subsidy.

This additional subsidy can be made available, however, under (a) the FHA rent Supplement Program (limited to 20% of the units in the project) (b) the Section 23 or Section 10 (c) Public Housing Leasing Programs (probably also limited to a % of the total number of units in a project).

Some Problem Areas

Unlike the 221 (d)(3) program, there is no "workable program for community improvement" requirement for Section 236.

This means that, in cities and towns where the development of housing under Section 221 (d)(3) BMIR program was effectively blocked by the absence of a workable program, the Section 236 program now presents an opportunity to secure housing for low and moderate income families.

However, the elimination of this one obstacle does not, afortiori, open each city and town to successful multi-family development under Section 236. The same old problems which have effectively worked to preclude 221 (d)(3) developments in the past are still very much with us. Zoning ordinances, building codes, planning boards, boards of appeal and unsympathetic real

estate assessment policies are still facts of life which must be faced within the context of the often frustrating milieu of local politics.

<u>The Real Estate Tax Problem</u>

Like the 221 (d) (3) BMIR program, a project developed under the 236 program has to fit into a tight and carefully structured financing framework. Under Section 236 the level of subsidy available for any given project is strictly limited. Beyond that limited subsidy the project mortgage must be supportable by a <u>basic rental schedule</u> which provides sufficient funds to:

1. amortize the debt at 1% over 40 years (level annuity amortization plan)

2. to pay anticipated operating costs such as heat, gas, electricity, insurance, decorating, repairs, replacement reserves, management costs, etc.

3. allow for adequate vacancy and other required cost reserves.

In addition, this basic rental schedule (i.e. money paid in by the lower income families) must provide enough cash to carry a reasonable real estate tax burden - <u>ALL WITHIN</u> the limited rental range permitted by the established income limits for that area; <u>if not, the project would be infeasible</u>.

Thus, for Section 236 projects as in the case of Section 221 (d)(3) projects, unless upon careful preliminary analysis, a judgment can realistically be made that all cost items can be controlled and kept within predictable limits, and that, within this set of limited costs, we can produce a project within the mortgage and income limit requirements established by Congress, it won't work.

Local real estate assessment policies and practices must be examined to determine that the real estate tax burden in addition to other costs to be borne by any given proposed development, can, in fact, based upon reliable evidence, be supported by an allowable basic rental schedule, based upon the income limits for the locality.

In some communities this does not present a serious problem. In others, especially where local officials have not had to deal extensively with assessment formulas for multi-family developments or do not have a clearly developed policy position in the matter, this problem may be one which requires a great deal of effort to resolve.

In most cases it amounts to the establishment of an assessment policy which recognizes the rather special character of Section 236 developments. This writer is among those who believe that, in Massachusetts, a legally defensible policy can be adopted which gives appropriate consideration to the extent to which regulatory controls are imposed to effectively limit costs, rental charges, and occupant income levels, and to insure that this housing is made available to lower income families. That is, the question to be answered by local officials should be stated as follows:

"What should be our policy and assessment formula for all or any multi-family housing developments where, pursuant to strictly enforced federal regulatory controls:

1. The owner is either (a) limited to a cash return of 6% of his invested cash equity or, (b) is a non-profit entity and realizes no cash profit (viz-a-viz, formulas for determining capitalized value for assessment purposes employed for "luxury" projects where normal cash profits are realized by the owners.)

2. Mortgage levels and costs are effectively limited.

3. Rental charges are established and controlled at levels well below the market.

4. Occupant income levels are effectively limited.

5. The owner is "frozen into" this framework for a period of at least twenty (20) years and as long as forty (40) years?"

Whether or not a useful answer to this question can be secured could conceivably tip the delicately balanced financing scales for a 236 proposal. In some cases the project can be made to work even without a specially developed local assessment policy; in others, especially where estimated construction costs are inordinately and uncontrollably high, the proposal probably won't work without such a policy.

In any event, the real estate tax question is equally as important under 236 as it has been under 221 (d)(3).

The Construction Cost Problem

Another more basic problem is that of already-high construction costs which continue to climb month by month at an alarming rate. Without going into detail here, it is enough, I think, to indicate that some of the more active and experienced builders in the housing field predict that an increase of more than 25% over the three-year period from 1967 through 1969 may prove to be a conservative estimate.

This is a critical problem for any housing development. Moreover, the problem takes on shocking dimensions for projects in the central city areas where housing (a) is most needed (b) has to be developed in high density (c) requires more expensive structural types (i.e. first class construction and, often, high rise buildings).

Here the problem is severely compounded by the fact that income levels among lower income families in the central city areas increase at a much slower rate than do housing costs; and this is due largely to the rate of construction cost increases.

Under the 221 (d)(3) program in Boston, particularly in so-called "ghetto areas", this kind of economic lag has currently created a financial gap between the rent paying ability of lower income families and necessary rental charges for proposed and recently constructed housing. This dollar gap can only be bridged by providing subsidies in addition that built into the 221 (d)(3) program (i.e. public housing leasing programs and the rent supplement program).

Who is to blame? The builder is caught in the middle since he has to pay ever increasing prevailing wage rates and buy his materials and equipment at ever increasing going rates from suppliers who are caught in the same squeeze. With regard to most 221 (d)(3) projects now in the planning stage experience has shown that, unless he is really "on top of things", if you will, all throughout the design period for a given project, and is experienced in the housing field, he probably won't be able to build the project within a construction contract figure allowable under FHA regulations.

FHA is not to blame. Efforts dimmed at streamlining processing and easing the burdens created by design requirements (FHA Minimum Property Standards) have been under way for some time and will continue. These are things that need to be done. FHA requirements often make the problem more difficult to deal with; but FHA is certainly not the root cause of the construction cost problem.

The owner, the architect, the renewal agencies, and the development consultant are not in the last analysis the singularly culpable group. They join with the builder and the FHA in assiduously seeking design and construction innovations - new methods and new materials for building housing at lower costs. Antiquated building codes, the predictable inertia of labor groups, unrealistic and preconceived notions on the part of the general public, and a myraid of other factors combine to block the path of innovations in housing construction which could ease the strain of the cost problem.

The net result is that, in terms of what realistically can be expected under the circumstances, truly low-cost housing is something which, though "devoutly to be wished" simply cannot be achieved at this point in time; and certainly not in the massive volumes we need for low and moderate income families. In truth we are all, in part, to blame; but no single group or agency is able to solve the problem.

The wage-price spiral presents essentially the same problem in most other parts of the country as it does in Boston, and, from all evidence, will probably continue to widen the dollar gap between what low and moderate income families can afford and what housing costs to produce.

The Section 236 program, with additional subsidies where and to the extent these are available, can help to lessen this gap, for a while; but, it is by no means a great and wonderful permanent solution to the problem. It really was not intended or expected to be that.

The Problem of Permanent Financing

The passage of the 236 program was viewed by some observers to be, in part, a response to the enigmatic situation created when the Johnson Administration pursuaded the Insurance Industry to announce that it would invest $1 billion in urban areas (with emphasis on financing for low income housing), and Congress shortly thereafter made available only $10 million for the Rent Supplement Program; which was the only program that could have provided the opportunity for this kind of investment.

That is, since 236 is a market rate program, it appeared that the Insurance Industry permanent mortgage money would have a place in this new "lower income" multi-family housing finance scheme.

However, under present circumstances, there is little chance of this coming to fruition.

The language of the 1968 Act and the current Section 236 regulations allow for a permanent market interest rate of 6.75% plus a total of 3 1/2% of the mortgage amount for other financing charges. These charges have many names such as initial service charge, discount "points", financing fees, "take out" or "stand-by" charges, commitment fees, purchase and marketing fees, and the like; but what ever term is used the maximum which, under current regulations, can be included in the estimated replacement cost is an amount equal to 3 1/2% of the mortgage.

In the current money market the construction lender (usually a commercial bank) will not accept this kind of loan unless there is a guarantee of at least 2% for constuction lending servicing and unless the "take out" or permanent mortgage commitment has been issued by another lending institution (usually a savings bank, insurance company or pension fund).

With only 3 1/2% available and 2% committed to the construction lender, unless a permanent lender will take the mortgage at 6.75% plus 1 1/2% for mortgage discount, or service charge or whatever, it will be impossible to place the mortgage. That is, unless the owner is prepared to pay out of his pocket whatever amount is necessary to induce the permanent lender to accept the mortgage; in today's market this will amount to upwards of 5% (i.e. $50,000 in the case of a $1 million mortgage).

For a number of good reasons, it simply does not make sense for a limited dividend owner to invest this kind of money and non-profit owners simply don't have the money.

For the past month or so, knowing this to be the situation, most people in the investment field have expected that the Federal National Mortgage Association (FNMA - affectionately referred to as Fanny-May) would solve the dilemma by purchasing these 236 mortgages, at par (i.e. FNMA would buy the mortgage at its face value).

However, as of November 15, 1968 FNMA (now a private entity), and its newly created quasi-governmental counterpart, Government National Mortgage Associations (GNMA or "Ginny-May") officially announced that the price that would be paid for a 236 mortgage would be based upon the Free Market System auction. At that time the price offered based upon previous auction prices (November 4) the discounted price would have been 99 1/4%. Briefly stated, the gist of the FNMA policy in the matter has been announced as follows:

". . . FHA Section 236 6 3/4% mortgages will be purchased at a price which will produce a gross yield (which will be adjusted for administrative costs) generally comparable to the yield after servicing obtained by FNMA from the weighted average of home mortgages in the Free Market System auction immediately preceeding receipt of the Sellers offer."

This means that, as of November 6, in addition to collecting a commitment fee and a purchase and marketing fee totalling 1 1/2% of the mortgage, FNMA would agree to purchase the mortgage from the construction lender upon completion of the project, not for the amount of the mortgage debt, but for an amount equal to 99 1/4% of the mortgage or a discount of 3/4%.

A week later, the price had dropped to 98 3/4% or a discount of 1 1/4%.

In addition, the construction lender is obliged to purchase stock in FNMA equal to 1% of the mortgage, which might or might not mean that the cost to the construction lender, and therefore, possibly to the mortgagor, would be even greater.

To make matters worse the discount (i.e. the difference between par or 100% of the mortgage and the price paid by FNMA) is <u>not</u> includible in the mortgage.

What does all this mean? It obviously means that since only 3 1/2 % is included in the mortgage for both construction lending and permanent lending financing charges, the since even dealing with FNMA under current regulations and in the current money market, the total of required financing costs will probably amount to anywhere from 4 3/4% to 8 1/2% (in the case of other permanent lenders), a construction lender will not take the mortgage unless the mortgagor (owner) comes up with the <u>difference</u> (i.e. $12,500 to $50,000 in the case of a $1 million mortgage) out of his pocket. The 236 limited divided owner probably won't do it if he can possibly avoid it, and if the difference is too great it wouldn't, in my judgment, make much sense to come up with this amount, in many cases. There is a way for a limited dividend owner to do it, but it's not a good answer to the problem.

Normally, the non-profit owner simply doesn't have that kind of money to spend.

Thus, at the moment, the "TILT" light is flickering in the money market for Section 236 mortgage financing.

However, HUD and particularly FHA are obviously expanding extraordinary energies to make the 236 program work. Eventually the answer to the permanent mortgage money question probably has to be one or a possible combination of several of the following:

1. FHA will have to permit inclusion in the mortgage of whatever amount is necessary to pay actual costs for both construction and permanent mortgage financing charges (this is really not an acceptable answer and probably won't happen), or

2. FNMA will have to buy 236 mortgages at par (since it is now a private entity and has stockholder to think of, this probably won't happen either)

3. GNMA, the quasi-governmental side of the agency, will have to be given the power and the money to pick up the slack, (this might result in more "back-door" spending in which case Congress wouldn't like it), or

4. HUD will under, Section 236 (d) of the Act, pay to the permanent lender 1/4$ or so per year to cover servicing charges and, in effect, produce an acceptable yeild. This is probably the best and easiest solution.

Conclusion

In answer to the question "Does the Section 236 program work?" the answer is "one ought to ask 'Can it be made to work?'"

In answer to the latter question, the answer is still a qualified "yes!"

But the real answer for any particular Section 236 development can only be given after all of the difficult development/financing problems for that particular case at that particular time have been identified, thorough examined, and skillfully resolved. The program can in most cases be made to work; but we will have to work at it and be prepared to solve the problems as we go.

To quote an old Vermont proverb of recent invention:
"Things ain't a whole lot easier today than they were yesterday - and tomorrow's commin', - maybe."

Prepared for use and distribution
By Citizen's Housing and Planning
Association of Metropolitan Boston
Inc.

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12/5/68

C. The Massachusetts Program: Tax Reductions for Development of "Blighted" Areas

1. Chapter 121A in a Nutshell

Under Chapter 121A of the General Laws of Massachusetts, provision is made for the formation of urban redevelopment corporations.[4] These corporations can be formed to undertake projects in blighted areas. These areas, (as in the case of the Prudential Center) need not be within urban renewal project areas. The developments need not be residential. Corporations formed under this act are limited for forty years to a 6% return on their investment. They are exempted during this period from all state taxes and local property taxes, and pay instead an "Excise" to the state, which is returned to the City in which the project lies and an "Additional Sum" to the City within which the project lies.[5]

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[4] See Chapter 121A, Massachusetts General Laws; See Also Chapter 652 Statutes 1960.

[5] In Prudential's case the total payable will amount to about 20% of the annual gross income attributable to the project.

2. Who May Undertake a Project?

A Project may be undertaken after appropriate approvals are obtained, by either an Urban Redevelopment Corporation organized by three or more persons under Chapter 121A, or by an Insurance Company with the approval of the Commissioner of Insurance, or by one or more Savings Banks subject to regulations of the Commissioner of Banks. An Urban Redevelopment Corporation may undertake only one Project and may engage in no other type of activity.

3. What is a Project?

A Project is any undertaking consisting of the construction in an eligible area of decent, safe, and sanitary residential, commercial, industrial, institutional recreational or governmental buildings, and appurtenant or incidential facilities, and the operation and maintenance thereof after construction.

Construction is defined to include the renovation, rehabilitation or remodelling of buildings.

The Project may include acquisition of land and buildings, land clearance and site preparation and improvements.

4. What Applications Are Necessary?

For the formation of a limited dividend urban redevelopment corporation, three or more incorporators associate themselves by written Agreement of Associaton. Articles of Organization are drawn. By-laws adopted and officers elected.

The group then will execute an application for submission to the Boston Redevelopment Authority. This application requests consent to the formation of the corporation and includes a complete description of the intended activities.

5. Who Approves the Project?

After reasonable notice and a public hearing, the Boston Redevelopment Authority adopts a Report approving or disapproving the Project and setting forth its reasons. Thereafter, approval by the Mayor of the City of Boston is required. If the Boston Redevelopment Authority approves and the Mayor approves, then a Certificate of Approval is issued by the BRA. The group may then submit its Agreement of Association accompanied by this Certificate to the Secretary of State for filing. If the papers are in order, the Secretary then issues the Certificate of Incorporation.[7]

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[7] See Chapter 121A and 156, Massachusetts General Laws

6. <u>Is An Applicant Required to Agree to Carry Out a Project to Completion?</u>

As soon as the corporation determines to carry out a Project, after it has been approved, it is required to enter into a Contract with the City, for the carrying out of the Project in accordance with the Application, the provisions of Chapter 121A, and the Rules, Regulations, and Standards prescribed by the BRA for the Project.[8]

This Contract may also provide for the payment to the City of specific or ascertainable amounts in addition to the excise prescribed in Chapter 121A:10.[9] The Rules and Regulations set out standards for the financing, construction, maintenance and management of the Project. The Corporation remains at all times subject to all reasonable rules and regulations applicable to the Project.

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8 MGLA 121A;5A

9 Ibid.

7. How May the Cost of a Project Be Financed?

The cost of a Project may be financed by the sale of its capital stock, by borrowing, and by grants or gifts, subject to qualifications:

(a) Borrowing

The Corporation may borrow no more than such proportions, (not exceeding 90%) of the estimated cost of the Project as the BRA shall approve. So long as the financing uses funds made available by the Federal Government or a mortgage insured or guaranteed by the Federal Government, a percentage in excess of 90% may be approved.[10] (Thus for Projects insured under Section 221(d)(3), borrowing up to 100% is permitted.)

(b) Capital Stock

All of the estimated Project cost not raised borrowing and such additional capital as the BRA has required or approved must be raised by the sale of capital stock, unless provided by grants or gifts.

8. What Limitations on Dividends is Imposed?

For Urban Redevelopment Corporations, the maximum payable is cumulative dividends at the rate of 6% per annum on the par value of the stock, (or if it be without par value, on the consideration paid for the stock as approved at the time of issuance.)

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[10] MGLA 121A:7

The limitation extent for a period of 40 years from the date of organization of the Urban Redevelopment Corporation.

Although dividends are cumulative, no interest is payable on dividend arrearances.

The 6% limitation does not apply to the payment of dividends out of profits from the sale of capital assets.

9. What Taxes Are Payable?

For a period of 40 years from the date of organization of the Urban Redevelopment Corporation, the Corporation and all its property are exempt from taxation, betterments and special assessments, and the Corporation is not required to pay any tax, excise or assessment to the Commonwealth or any of its political subdivision, other than excise on registered motor vehicles and gasoline, except the following:

(a) A basic annual excise of (1) 5% of gross income in the preceding calendar year, plus (II) $10 per $1,000 of the fair cash value of the Project. But this excise is not tobbe less than the sum the city would have received by applying its tax rate for the year in question to the average of the assessed valuation of the land and building for the three years next preceeding the acquisition of the site. (In other words, an assessment "freeze." The City is to get no loss from the site than it would have gotten from the old site.)[11]

(b) Any Additional Sums which the Corporation has agreed with the City to pay to it, as stated in its Application.[12] (About 10% for residential developments and 15% for non-residential developments.)

(c) An Additional amount if gross receipts in any year exceed certain allowable expenditures and dividends.[13]

10. What Are the Consequences of a Default in Carrying Out the Project?

If the Corporation defaults in any respect, the BRA

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[11] MGLA 121A:10 [12] MGLA 121A:6A [13] MGLA 121A:15

may institute a proceeding in equity to prevent or require such act or failure or to act, as the case may be, in addition to pursuing any other available remedies.

11. May a Project Be Changed?

The Corporation may apply to the BRA for leave to change the type and character of the buildings on the Project. Such application may be granted if the BRA determines that the proposed change is not a fundamental one otherwise, the application is treated as an application for original approval.

12. What is the Status of the Project at the End of the 40-Year Period?

If all obligations have been carried out for the 40-year period, the Urban Redevelopment Corporation, thereafter has all the rights, privilidges, obligations and duties of a Massachusetts business corporation, and its stockholders are free from all of the special limitations, restrictions, obligations and duties imposed upon Urban Redevelopment Corporations and their stockholders.

VERTICAL FILE

Analysis of the 236

housing program.

DATE	ISSUED TO